BILL # HB 2570 **TITLE:** licensed liquor premises; closing time

SPONSOR: Reagan **STATUS:** House Engrossed

REQUESTED BY: House **PREPARED BY:** Brian Schmitz/Jeff McLellan

FISCAL ANALYSIS

Description

This bill would allow spirituous liquor to be sold at all retail locations until 2:00 am and would permit its consumption at on-site retailers until 2:30 am. Currently, liquor retailers must stop serving alcohol at 1:00 am and on-site consumption must stop by 1:15 am.

Estimated Impact

By lengthening the period in which alcohol may be sold, JLBC Staff estimates that this bill would result in increased alcohol sales and increased tax collections. Advocates for the bill estimate that it would lead to a 3.3% increase in alcohol sales, resulting in a sales tax increase of $3.1 million and a luxury tax increase of $471,000. While an impact of this size is possible, the estimate is not based on hard data. We have been unable to locate data that would permit us to quantify the bill's impact. If the increase does prove to be 3.3%, these additional funds would be distributed in the following manner.

Distribution	FY 2005
General Fund	$2,253,300
Other Appropriated Funds	257,300
Prop. 301 Education	331,700
Shared with Local Governments	724,100
Total	$3,566,400

The bill would also result in added regulatory costs for the Department of Liquor Licenses and Control, as the agency would have more hours of liquor activity to regulate. The agency estimates that the bill would require it to add 6 officers at a cost of $581,460. We estimate that the bill would require the department to fill one vacant investigator position at a cost of $96,900. Of this cost, $28,800 represents one-time costs such as acquiring a vehicle.

There may also be secondary impacts associated with the bill. For example, the bill may have an impact on public safety, health care, and tourism; however, we have not attempted to quantify the secondary impacts.

The Department of Revenue does not have an estimate of the bill's impact.

Analysis

To estimate the impact of this bill, it is necessary to project how much alcohol would be sold at Arizona bars, restaurants, and grocery stores between 1:00 am and 2:00 am. Given the lateness of the hour, it is reasonable to assume that the large majority of spirituous liquor sales during this period would occur at bars, rather than at restaurants or grocery stores.

The Distilled Spirits Council of the United States (DISCUS) estimates that alcohol sales between 1:00 am and 2:00 am would be half of what occurs between 12:00 am and 1:00 am. According to DISCUS, there is no hard data on alcohol sales by hour

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Analysis (Cont'd)

of the day, so to estimate sales in the 1:00 am – 2:00 am hour, DISCUS relied on anecdotal experience. Given the assumption that sales in this hour would be half of the previous hour's activity, DISCUS estimates that alcohol sales would increase by 3.3% under this bill. This growth rate translates into increased alcohol sales of $55.2 million per year, new sales tax receipts of $3.1 million, and new luxury tax collections of $471,000.

However, the DISCUS estimation methodology has some problems. There is apparently no data to support the assumption that alcohol sales between 1:00 am and 2:00 am would be half of the sales that occur in the prior hour. Also, there is no data on the amount of sales that take place in the 12:00 am – 1:00 am period. So, even if it is reasonable to assume that sales would drop by 50% in the last hour, there is no way of knowing the dollar value of sales in the penultimate hour. To overcome this problem, DISCUS arbitrarily assigned a value to the 12:00 am – 1:00 am hour, and based on this value it was able to estimate the sales volume in the next hour. However, there is no hard data to support the DISCUS assumptions.

In addition to the revenue impact of this bill, it would also result in a regulatory cost for the Department of Liquor Licenses and Control (DLLC). The department estimates that it would need 6 additional officers to cope with the extended drinking hours. The cost of adding the 6 officers is $581,460, according to DLLC.

As of January 28th, DLLC currently has 15 officers in the field. HB 2570 would allow liquor sales to increase by 7 hours per week. In order to maintain the current ratio of hours to officers, we estimate that the Department of Liquor Licenses and Control would need one additional officer in the field, bringing the total number of officers to 16. The additional cost associated with adding another officer is estimated by the department to be $96,900. This figure includes $28,800 in one-time costs, such as acquiring a vehicle for the officer.

Local Government Impact

State sales tax collections are shared with the counties and cities. Using the DISCUS estimate, the counties would receive state shared revenues of $447,800 and the cities would receive $276,300.

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